

Message Text

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ACTION ARA-10

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FM AMEMBASSY BUENOS AIRES

TO SECSTATE WASHDC 2330

C O N F I D E N T I A L BUENOS AIRES 5584

FOR JACK M. SMITH, JR. ARA/APU

E.O. 11652: GDS

TAGS: EFIN, AR

SUBJECT: TREASURY STUDY OF ARGENTINE DEBT SITUATION

REF: A) SMITH/BEAL LETTER OF AUGUST 1, 1975

B) BUENOS AIRES 5523

C) BUENOS AIRES 5477

D) BUENOS AIRES 4783

1. WE REVIEWED STUDY ENTITLED ARGENTINA - EARLY WARNING SYSTEM AND OFFER FOLLOWING COMMENTS WHICH WE HOPE USEFUL TO WASHINGTON.

2. SUMMARY: PARAGRAPH 1: LAST TWO SENTENCES MIGHT BE CHANGED TO READ: AT PRESENT THE ARGENTINE ECONOMY HAS DETERIORATED AND THE GOVERNMENT LACKS EFFECTIVE LEADERSHIP. THE CURRENT ADMINISTRATION HAS PURSUED POLICIES OF ECONOMIC NATIONALISM WHICH, TOGETHER WITH POORLY DESIGNED INCOME REDISTRIBUTION PROGRAMS, HAVE CONTRIBUTED TO THE CURRENT ECONOMIC CRISIS.

PARAGRAPH 2: SUGGEST FOLLOWING LANGUAGE: THE GOVERNMENT OF ARGENTINA WILL HAVE A DIFFICULT TIME MEETING ITS
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EXTERNAL OBLIGATIONS IN 1975 BECAUSE 1) FOREIGN EXCHANGE

RESERVES ALREADY ARE LOW, 2) IMF NEGOTIATIONS WILL BE SENSITIVE POLITICALLY, 3) POSTPONEMENT AND ROLLING OVER DEBT MAY BECOME MORE DIFFICULT, AND 4) PROSPECTS FOR NEW CAPITAL INFLOWS ARE NOT FAVORABLE IN CURRENT CIRCUMSTANCES. LAST SENTENCE WOULD REMAIN SAME.

PARAGRAPH 3: WE THINK GOA WILL BE RELUCTANT REQUEST COMPREHENSIVE "PARIS CLUB" RESCHEDULING OPERATION -- PRIMARILY FOR POLITICAL REASONS. HOWEVER, CURRENT FOREIGN EXCHANGE PLUS FORESEEABLE FOREIGN EXCHANGE INFLOWS DURING REMAINDER 1975 WILL NOT BE ENOUGH MEET EXTERNAL OBLIGATIONS IN OUR VIEW. THUS, GOA WILL HAVE TO POSTPONE OR ROLL OVER SOME DEBT WITH SOME CREDITORS. WE DON'T KNOW YET HOW GOA INTENDS TO DO THIS.

3. EXTERNAL DEBT: PARAGRAPHS 4, 5 AND 6: ACTUAL DEBT SERVICE BURDEN USUALLY LESS THAN ESTIMATED AMOUNTS BECAUSE SOME DEBT ROLL OVER AND POSTPONEMENT OCCURS ROUTINELY EVERY YEAR. KEEPING THIS IN MIND, ESTIMATED 1975 RATIO OF 93 PER CENT (SEE PARAGRAPH 4) NOT SO STARTLING. ACTUAL RATIO FOR 1975 WILL BE ABOVE RECENT YEAR AVERAGE BUT MUCH LESS THAN 93 PER CENT.

4. COMMENT: PARAGRAPH 3: SUGGEST CHANGE SENTENCE TWO TO READ: THE BULK OF THE INCREASE IS ATTRIBUTED TO STATE-OWNED CORPORATIONS.

5. BALANCE OF PAYMENTS: PARAGRAPH 1: 1974 BALANCE OF PAYMENTS DATA RECENTLY PUBLISHED BY GOA. HIGHLIGHTS ARE: EXPORTS \$4,005 MILLION; IMPORTS \$3,570 MILLION; TRADE BALANCE PLUS \$435 MILLION; SERVICES MINUS \$189.6 MILLION; UNILATERAL TRANSFERS PLUS \$.3 MILLION; CURRENT ACCOUNT PLUS \$245.7 MILLION; CAPITAL ACCOUNT MINUS \$360 MILLION; ERRORS AND OMISSIONS PLUS \$21.2 MILLION; OTHER PLUS \$41.8 MILLION; INTERNATIONAL RESERVES PLUS \$51.3 MILLION (I.E. REDUCTION).

PARAGRAPH 4: OUR LATEST ESTIMATES FOR 1975 BALANCE OF PAYMENTS CONTAINED REF. B.

6. OUTLOOK: PARAGRAH 2: SUGGEST NEW LANGUAGE ALONG FOLLOWING LINES: ELIMINATION OF PRICE CONTROLS, CONFIDENTIAL

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ALONG WITH DEVALUATION, WERE IMPORTANT FACTORS CAUSING INFLATION, LONG REPRESSED BY ARTIFICIAL MEASURES, TO SURGE OUT OF CONTROL. LABOR'S RESPONSE WAS TO DEMAND SIZABLE WAGE INCREASES WHICH THE GOVERNMENT EVENTUALLY PERMITTED -- FOLLOWING A CONFRONTATION WHICH LEFT BOTH PARTIES WEAKENED AND PARTIALLY DISCREDITED. TENSION BETWEEN GOA AND THE LABOR UNIONS IS LIKELY TO CONTINUE, ALTHOUGH THE PRESENT ECONOMY MINISTER, ANTONIO CAFIERO, HAS CLOSE CONNECTIONS WITH

THE CGT AND INITIALLY, AT LEAST, ENJOYS LABOR'S FIRM SUPPORT. MRS. PERON'S HEALTH IS ALWAYS AN IMPORTANT FACTOR IN ASSESSING FUTURE POLITICAL DEVELOPMENTS ALTHOUGH SHE NOW SEEMS RECOVERED FROM HER RECENT MENTAL AND PHYSICAL FATIGUE. MOST OBSERVERS CONTINUE TO FEEL THAT THE MILITARY WOULD PREFER TO STAY OUT OF POLITICS, BUT SPECULATION CONTINUES OVER POSSIBILITIES OF INTERVENTION IN VIEW OF THE CURRENT UNSTABLE SITUATION.

PARAGRAPH 3: FOR LATEST RUNDOWN GOA ATTEMPTS SEEK FOREIGN CAPITAL (SEE REF. C). ACCORDING DR. CARIOLI'S DOCUMENT OUTLINED REFTEL C, GOA SEEKING \$100 MILLION FROM VENEZUELA RATHER THAN \$600 MILLION. WE NOT FAMILIAR GOA EFFORT OBTAIN \$500 MILLION EUROPEAN BANK CONSORTIUM. COULD THAT FIGURE BE \$50 MILLION? WHILE CHEMICAL BANK OPERATION LIKELY MOVE FORWARD, WE MORE DOUBTFUL RE FNCB LOAN.

PARAGRAPH 5: SUGGEST NEW LANGUAGE ALONG FOLLOWING LINES: OVER THE NEXT SEVERAL MONTHS, ARGENTINA WILL HAVE TO MAKE SOME DIFFICULT DECISIONS IN THE ECONOMIC AREA. THESE INCLUDE MEASURES TO IMPROVE THE BALANCE OF PAYMENTS, FINANCE THE EXTERNAL DEBT, REDUCE DOMESTIC INFLATION, AND AVOID RECESSION. AT THIS STAGE, IT IS NOT CLEAR WHETHER THE GOA CAN RE-ESTABLISH POLITICAL STABILITY TO INITIATE A PROCESS OF SUSTAINED ECONOMIC RECOVERY. FOLLOWING HER CONFRONTATION WITH LABOR, MRS. PERON HAS APPOINTED A NEW, AND POSSIBLY STRONGER, CABINET WITH SIGNIFICANT LABOR ORIENTATION. NEVERTHELESS, POLITICAL MANEUVERING CONTINUES, THE PERONIST PARTY ITSELF REMAINS DISORGANIZED, AND THERE IS WIDESPREAD DISCONTENT IN ARGENTINA OVER THE PRESENT STATE OF AFFAIRS. IF THE GOA CANNOT QUICKLY RESTORE CONFIDENCE IN ITSELF AND GET THE COUNTRY MOVING AGAIN ECONOMICALLY, A MILITARY SOLUTION BECOMES INCREASINGLY CONFIDENTIAL

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LIKELY. HOWEVER, EVEN A NEW MILITARY REGIME WOULD HAVE A DIFFICULT TIME GOVERNING IN THIS VERY VOLATILE AND SPLINTERED COUNTRY.
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